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SUBJECT: MAHOGANY IN PERU: A PRIMER

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11. SUMMARY: This cable lays out the basic facts of traded mahogany wood in Peru. 2006 Mahogany exports were worth about \$30 million, about 17% of all timber exported. Approximately 90% of all exported mahogany goes to the U.S market. Mahogany is an Appendix II species under the International Endangered Species Convention (CITES), allowing trade but requiring the exporting nation to assure the legal acquisition of exports and non-detrimental impact to the species. In Peru, legal acquisition has become controversial due to persistent illegal logging, corruption and poor regulatory/enforcement oversight, despite the GOP's efforts to improve control and regulation of the forest sector as well as promote sustainable forest management in forest concessions and indigenous lands. The issue is complicated by remoteness of logging areas and the almost complete lack of state presence. The GOP recently reduced its 2007 mahogany export quota. Non-detriment findings by CITES will be helped by completing a comprehensive inventory of mahogany in Peru currently underway. Post has also been working on avenues to support the GOP's stated aim to sustainably manage mahogany, which include independent certification of origin and chain of custody.
END SUMMARY.

MAHOGANY RANGE IN PERU

12. Throughout this cable, mahogany refers to Broad - (or Big-) leafed mahogany, a neotropical hardwood naturally occurring from Mexico to Bolivia. It is a large tree (up to 50 meters tall and two meters in diameter) and found in singular stands (one to ten trees per hectare). Unlike most tropical hardwoods, it has a high unit value and unique properties prized for furniture, due to its workability and quality of finish. The ecological requirements of the species have not been fully studied, but some data exists.

13. In its natural state, big leaf mahogany is relatively slow growing (120 - 150 years to maturity), however in plantations which have been established in South Pacific and Southeast Asian countries it does well and is relatively fast growing (40 - 60 years to maturity). In its natural range in the Americas, it is attacked by a boring arthropod (*Hypsipyla grandella*) which greatly limits its natural regeneration and limits its possibilities for plantations.

For this reason, throughout its natural range mahogany has been harvested from wild populations. Mahogany has reportedly been mostly logged out in its original natural range and is considered commercially extinct in all countries except Brazil and Peru. With Brazil's ban on mahogany exports, Peru is the leading mahogany exporter.

COMPREHENSIVE INVENTORY FINISHED IN 2008

¶4. Mahogany was naturally found throughout the Amazonian basin in Peru, but after logging and other deforestation now only exists in significant commercial quantities in parts of Loreto, Ucayali and Madre de Dios regions, with the highest concentrations along the Brazilian border in Madre de Dios region. Mahogany is found mostly in Protected Areas and indigenous lands. A comprehensive, up-to-date inventory of the Peruvian mahogany does not yet exist, due in part to the difficulty of access to its range and the large number of man-hours needed to inventory a huge area. The latest estimate of the total mahogany population in Peru, made by the National Agricultural University La Molina (UNALM), and based on its recent inventories of two departments and extrapolated to the rest of its estimated range, is approximately 88,000 mature trees. However, this figure may be revised, as the national inventory of mahogany is still on-going and should be completed by 2008.

INTERNATIONAL PROTECTION - CITES

¶5. Peru signed the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in 1975. CITES' three appendixes list species according to their vulnerability. In 2002, the CITES parties (including the U.S.) agreed to include mahogany in Appendix II, which regulates species that are not necessarily threatened with extinction, but in which trade must be controlled to avoid use incompatible with their survival; international trade is possible when protective measures are taken to guarantee that trade is legal (legal acquisition) and that the trade does not cause detriment to species survival. Voluntary Export quotas are a management tool for "range" (where mahogany is found) countries to assure legal acquisition and non-detriment.

¶6. Appendix II range countries designate a Management Authority and a Scientific Authority to comply with CITES requirements. The authorities reside in the same agency in some nations, such as the U.S. (U.S. Fish and Wildlife Service) and Brazil (IBAMA). In Peru, the GOP designated its agency National Institute of Natural Resources (INRENA) as the Management and the National Agrarian University (UNALM) as the Scientific Authorities; at UNALM Forestry Engineer Ignacio Lombardi directs the activities of the scientific authority and in INRENA management responsibility lies in the Biodiversity Unit. Commercial international trade may take place only if the Management Authority issues an export permit - and no such permits should be issued unless the Scientific Authority of the exporting State advises that the trade which is to take place will not be detrimental to survival. The finding of "non-detriment" is linked to each export permit. In Peru the Ministry of Foreign Affairs also signs export permits.

¶7. The CITES Secretariat (which manages Convention implementation) and member nations established a Mahogany Working Group (MWG) as part of the Plants Committee. Last year, the MWG considered placing mahogany into "significant trade review," a mechanism under which since 1979 the Plants Committees has a mandate to identify Appendix-II species that are subject to significant levels of trade; the Committee can make recommendations for action by the range State to avoid a recommendation that the species be transferred from Appendix II to Appendix I, meaning that all trade is banned.

¶8. While the Secretariat in 2006 proposed considering a ban on mahogany exports from Peru, or failing that a Significant Trade Review, the MWG and the Standing Committee did not agree and Peru was permitted to continue exporting mahogany. Peru agreed to improve management measures. A delegation from the Secretariat recently finished a visit to assess Peru's progress. A meeting of the Standing Committee is scheduled for June 2, followed by the Conference of the Parties (COP) on June 3. While mahogany will probably be on the Standing Committee's agenda, it is not clear yet if it will be on the COP agenda.

¶9. The extent to which Scientific Authority UNALM has issued effective non-detriment findings is a topic of debate among CITES members, the Secretariat and NGO observers. According to UNALM, non

detriment findings can be made for each shipment as required by CITES, as the volume of individual shipments are not detrimental. Critics claim that UNALM has not issued effective non-detriment findings due to need to consider the totality of exports rather than individual shipments, and the lack of valid scientific information, including incomplete inventories. Procedures and criteria for the issuance of non detrimental findings are currently being debated in Peru, with a view to a pronouncement in April 2007.

MAHOGANY HARVEST IN PERU

¶10. In Peru, mahogany plantations are negligible. Wild trees are generally harvested with chainsaws using riverine access or roads if they exist. Logs are skidded with basic machinery to riverine transport to sawmills in Peru's jungle cities such as Pucallpa, Puerto Maldonado or Iquitos. Legal harvest requires a national permit from INRENA, the natural resources agency (responsible for protected areas and wildlife as well as forest management) under the authority of the Ministry of Agriculture. INRENA issues two types of harvest permits, to commercial concessionaires as well as to indigenous communities. Another agency, OSINFOR, is responsible for overseeing the issuance of permits and their compliance; OSINFOR's Director reports to the Director of INRENA, which has resulted in criticism that there is no independent oversight of the mahogany concession process.

MAHOGANY TRADE FROM PERU

¶11. Wood products exports from Peru are only a small part of the value of overall exports, but wood represents a large percentage of exports from the jungle departments such as Loreto, Madre de Dios and Ucayali. Within wood exports, mahogany is similarly a relatively small percentage. With around half of Peru's territory forested, wood exports have a high potential for growth with many currently and potentially valuable species growing alongside mahogany. The value of mahogany exports has increased little, from \$50.8 million in 2004, \$58 million in 2005 to \$52 million in 2006. Compared to its neighbors, the value of exports are still in infancy: Brazil's 2006 wood products exports were reportedly \$6 billion and Chile's \$3.5 billion. Over 80% of Peru's mahogany exports go to the U.S., exported by six Peruvian firms and imported by a number of U.S. import firms.

¶12. Documented mahogany exports have dropped considerably in the last decade. Mahogany is exported primarily as sawn wood, but there are exports of finished products such as furniture as well. Documented mahogany exports have experienced flow and ebb over the past ten years:

1996-	100,000 m3;
2000-	36,548 m3
2002-	52,137 m3
2004-	30,785
2005 -	23,621 m3
2006 -	21,802 m3 (worth around \$30 million)

EIGHTY-TWO PERCENT OF EXPORTS GO TO U.S.

¶13. Of 2006 mahogany exports, at least 82% went to the U.S., followed by 12% to the Dominican Republic. As some mahogany processed in markets such as the Dominican Republic is re-exported as furniture to the U.S., some estimates put more than 90% of total exports ultimately arriving in the U.S. market. China's market for Peruvian timber is growing considerably, but at this time mahogany exports to China are limited. Mahogany was once the major part of Peru's wood exports, but for 2006 was 16% and for 2007 industry exporters estimate that mahogany will account for only 8% of wood exports as other species become more commercially valuable and are successfully exploited.

THE CONCESSIONING PROCESS

¶14. For commercial logging on government lands, INRENA makes a determination to allow cutting in a particular section and issues a public request for bids, to result in a concession for 40 years. (Note: some years ago concessions were for only two years; a 40 year concession is intended to motivate the concessionaire to sustainably manage the concession. End Note.) In practice, INRENA does not

investigate the bona fides of bidders, but relies on submitted bid documents. After awarding a bid to cut a given parcel, the awardee must file a forest commercial species inventory, an annual operating plan (POA), and a general forest management plan for the entire concession. POAs must specify the amount of mahogany (and other species) that will be taken from a tract, but INRENA does not impose a quota per tract. The quota comes into play only at the export stage; as a result there may be more mahogany cut than the quota, but it would have to be stored until the next year once the quota has been reached. Data on mahogany wood production not for export has been difficult to obtain.

¶15. As a result of the 2000 General Forestry Law, which sought to modernize forestry, the GOP has concessioned close to 7.2 million hectares out of the approximate 65 million hectares of forest land in Peru. Critics point to weaknesses in the concessioning process, including lack of transparency in the issuance of awards; lack of clear criteria for selection, lack of financial/investment capacity and technical expertise by awardees and land conflicts between concessionaires and indigenous landowners; there have been calls for cancellation of many of the concessions and for a re-organization of the entire process. INRENA has put further concessioning on hold until these issues are resolved.

¶16. In addition to forest concessions, INRENA also issues authorization to indigenous communities and small agricultural holdings for felling of timber. Indigenous communities follow the same procedures as those for concessions, with the presentation of forest inventories, general forest management plans and annual operating plans. Approximately 3,200 indigenous communities have legal land title to an estimated 9 million hectares in the Peruvian Amazon. The GOP, international donors and NGO's have tried in recent years to help indigenous peoples sustainably manage their forest resources. Observers have long reported unsustainable logging practices take place on indigenous lands by commercial loggers who reportedly exploit indigenous peoples with predatory contract labor practices, playing on local ignorance of forestry and labor regulations.

INRENA's EXPORT QUOTA

¶17. INRENA began setting quotas in 2005, set in cubic meters (m3) of sawn wood:

2005 -- 23,621m3

2006 -- 23,239m3 (Note: actual exports were 21,802)

2007 -- 13,476m3

In 2006 a total of 21,802 m3 were exported, less than the quota.

While a radical cut from historical exports and the 2006 quota, it remains controversial (Ref A) and UNALM has made a preliminary recommendation that the quota be in trees: 1226 trees for an estimated 11,769 m3.

¶18. To set the quota INRENA states that it uses a variety of criteria: documented domestic stocks whose legality is randomly verified; available data on populations, some of which is supplied by permit holders for commercial concessions or indigenous community cutting, and historical trends. INRENA uses in the first instance annual operating plans as presented by forest concessionaires and indigenous communities, which have been approved though in most cases not yet verified. In addition, estimates of existing stocks in warehouses are also used, based on information provided by the principle mahogany exporters. This information is complemented by further available data on populations as well as that provided by the Scientific Authority UNALM.

LAW ENFORCEMENT

¶19. Under the GOP's management system, INRENA inspectors verify mahogany in several stages: before approval of the POA; at control points between logging areas and sawmills; at the sawmills; as sawn wood; at its final destination for local sale or export. OSINFOR, an independent agency responsible to the Prime Minister's office, inspects forest concessions at various points to verify that mahogany trees are being taken from a legal concession or indigenous community. The tax agency SUNAT also inspects at the final destination, and for mahogany, employees from INRENA's biodiversity division verify before issuing a CITES export certificate. Some of the personnel used to staff control points are contract employees.

INRENA has no law enforcement authority, which is employed by the Ecological Division of the National Police. There are no special law courts for illegal logging cases.

FOREST CERTIFICATION

¶20. A joint USAID/GOP/NGO effort has resulted in certification of close to 500,000 of the eight million concessioned (including indigenous lands) hectares; Certification means that the NGO Forest Stewardship Council (FSC), or its authorized auditors from other NGOs certifies that a tract of land has been logged (with an annual audit) with consideration for environmental, social and economic considerations. FSC's website is <http://www.fsc.org/esp>. Within the GOP the Minister of Agriculture and INRENA director have praised certification as a positive management tool, but INRENA has not required mahogany exports to come from certified tracts.

CONTROVERSIES IN EXPORT QUOTAS AND MANAGEMENT

¶21. The 2007 national mahogany export quota has controversial elements that have provoked criticism from NGOs, including some in UNALM. 2007 quota is based on the 2006 harvest period. In 2006, 30% of the quota was specifically allocated on the basis of POAs for the harvest period 2006 (approximately 7,500 m3). When added to the quota of 2007, which is exclusively based on the harvest period 2006, the total quota for the harvest period 2006 is arguably 21,000 m3. Critics allege that allowing 2006 POAs with pending verification on site allows later verification to be conducted not on the standing tree but on the stump; in that case trees could have been cut before the legal time for the concession. The 2007 quota does not provide for mahogany to be cut in 2007, which will harm certified mahogany logging operations; this certified mahogany would thus have to wait for export until 2008. While the quota considers as criteria for exclusion from the quota areas with less than 2000 mature mahogany trees, closed areas are not identified. The Scientific Authority has suggested that only mahogany from the regions of Loreto, Ucayali and Madre de Dios should be exported, but INRENA has not defined the quota by area. There are divergent opinions between NGOs, the Scientific Authority and INRENA on the number of mature trees available for harvest.

¶22. Longstanding criticisms of forest management include widespread illegal logging of mahogany, enabled by: logging in non-concessioned tracts and indigenous lands, corruption by INRENA inspectors and document issuers, lack of police enforcement and poor results in the judicial system for illegal logging cases. INRENA insists that exports will be authorized only after field verification, but INRENA has been criticized for inadequate verification in the past. There has been little doubt that INRENA and the Ecological Police have suffered from underfunding and understaffing.

GOP ACTIONS

¶23. While issues with mahogany take center stage due in part to its place in U.S./Peru trade, its high value and CITES obligations, mahogany is only a part of forestry issues in Peru. The current government has been in office less than a year, but President Garcia, the Minister of Agriculture and the INRENA Director have all spoken publicly of the need to combat deforestation, replant deforested areas, combat illegal logging and create a sustainable forest products industry to benefit the poor in jungle regions. INRENA is currently undergoing a massive reorganization to address these issues. Among other steps, INRENA is planning to decentralize forest management by assigning more responsibility for identification of concession lands regional governments.

AVENUES FOR U.S. ASSISTANCE: WHAT TO DO?

¶24. The CITES Secretariat representative made encouraging public remarks about the GOP's progress in managing mahogany during his recent visit, also making positive remarks about certification. The GOP has publicly identified two million hectares of certified forest as its objective by 2011. Post believes continued support for forest certification is important for mahogany management but not enough. USAID Lima's environmental program, with participation from State Econ section, supports more effective central planning in INRENA. Some recent USAID programs, such as technical support for a computerized data entry system at the field level for INRENA

inspectors had to be terminated after corruption issues surfaced. Anti-corruption programs are the primary focus of the Millennium Challenge Corporation's plan for a Threshold Program in Peru. State and USAID are working to organize training in environmental law enforcement that would be useful for mahogany management. USDA is exploring a capacity building effort with INRENA targeted to mahogany management in conjunction with a community forestry management project, funded by PL 480 resources. An aerial imaging solution to inventorying mahogany has captured the interest of INRENA, but it may be prohibitively expensive and of questionable sustainability. Lastly, the private sector, both U.S. importers and Peruvian exporters, appear willing to assist with certification and other management measures, and they welcome USG input on where to put their resources. Most agree that support for starting sustainable plantations in deforested land would help Peru's economy and reduce pressure on indigenous populations.

¶25. Post will work with Washington to ensure that the Work Plan for the Environmental Cooperation Agreement between Peru and the U.S. (which would go into force if the Peru Trade Promotion Agreement goes into force) would have as a prime focus programs to improve mahogany management. Post welcomes other ideas on how to assist the GOP, NGOs and other donor nations to ensure legal acquisition of and non-detriment to mahogany.
STRUBLE